

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF PUERTO RICO

In re:

THE FINANCIAL OVERSIGHT AND  
MANAGEMENT BOARD FOR PUERTO RICO

as representative of

THE COMMONWEALTH OF PUERTO RICO, *et al.*,  
Debtors.<sup>1</sup>

PROMESA  
Title III

No. 17 BK 3283-LTS  
(Jointly Administered)

**DECLARATION OF LANORA C. PETTIT IN SUPPORT OF  
URGENT RENEWED JOINT MOTION BY THE AD HOC GROUP OF GENERAL OB-  
LIGATION BONDHOLDERS, AMBAC ASSURANCE CORPORATION, ASSURED  
GUARANTY CORP., ASSURED GUARANTY MUNICIPAL CORP., THE MUTUAL  
FUND GROUP, AND NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION  
FOR ORDER AUTHORIZING RULE 2004 EXAMINATION**

1. I am an attorney associated with the law firm of Robbins, Russell, Englert, Orseck, Untereiner, and Sauber LLP, counsel, along with Paul, Weiss, Rifkind, Wharton & Garrison, LLP and Jiménez, Graffam & Lausell, for movants the Ad Hoc Group of General Obligation Bondholders. I submit this declaration in further support of the Urgent Renewed Joint Motion By The Ad Hoc Group Of General Obligation Bondholders, Ambac Assurance Corp., Assured Guaranty Corp., Assured Guaranty Municipal Corp. and National Public Finance Guarantee Corporation for Order Authorizing Rule 2004 Examination.

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<sup>1</sup> The Debtors in these title III cases (collectively, the "Title III Cases"), along with each Debtor's respective Title III Case number and the last four (4) digits of each Debtor's federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (the "Commonwealth") (Bankruptcy Case No. 17 BK 3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation ("COFINA") (Bankruptcy Case No. 17 BK 3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority ("HTA") (Bankruptcy Case No. 17 BK 3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico; and (v) Puerto Rico Electric Power Authority ("PREPA") (Bankruptcy Case No. 17 BK 4780-LTS) (Last Four Digits of Federal Tax ID: 3747) (Bankruptcy Case No. 17 BK 3566-LTS) (Last Four Digits of Federal Tax ID: 9686). (Title III Case numbers are listed as bankruptcy case numbers due to software limitations).

2. Attached hereto as Exhibit A is a transcript of the First Public Meeting of the Financial Oversight and Management Board for Puerto Rico, which was held on September 30, 2016. The transcript was prepared by Alderson Court Reporting from a recording of the meeting.

3. Attached hereto as Exhibit B is a true and correct copy of an article titled "Commonwealth, Oversight Board Remain Divided on Furloughs After Board Approves Reduced Program Beginning Sept. 1 to Address \$218M Funding Gap," which was published by Reorg Research on August 4, 2017.

I declare under penalty of perjury that to the best of my knowledge the foregoing is true and correct.

Executed on November 28, 2017 in Washington, D.C.

By:

  
Lanora C. Pettit

# EXHIBIT A

# Alderson<sup>®</sup>

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## COURT REPORTING

### **Transcript of 1st Public Meeting - September 30, 2016**

September 30, 2016

*Transcription for Robbins Russell*

Alderson Reporting  
1-800-367-3376  
info@aldersonreporting.com  
<http://www.aldersonreporting.com>

Alderson Reference Number: 71670

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4 THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD

5 FOR PUERTO RICO

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9 PRIMERA REUNION DE LA JUNTA

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12 1ST PUBLIC MEETING

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16 September 30th, 2016

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22 New York, New York

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1 PARTICIPANTS

2 BOARD MEMBERS:

3 JOSE B. CARRION (Chair), President and Principal  
4 Partner, HUB International CLC, LLC, San Juan, Puerto  
5 Rico

6 ANDREW G. BIGGS, Resident Scholar, American  
7 Enterprise Institute, Washington, D.C.

8 CARLOS M. GARCIA, CEO, BayBoston Managers LLC, and  
9 Managing Partner, BayBoston Capital L.P., Newton  
10 Centre, Massachusetts

11 HONORABLE ARTHUR J. GONZALEZ, Senior Fellow, New  
12 York University School of Law, New York, New York; and  
13 Former Judge, Bankruptcy Court, Southern District of  
14 New York, New York, New York

15 JOSE R. GONZALEZ, CEO and Resident, Federal Home  
16 Loan Bank of New York, New York, New York

17 ANA J. MATOSANTOS, President, Matosantos  
18 Consulting, Sacramento, California

19 DAVID A. SKEEL, Professor, University of  
20 Pennsylvania Law School, Philadelphia, Pennsylvania

21 HONORABLE RICHARD RAVITCH, Former Lieutenant  
22 Governor, State of New York, Albany, New York

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1 P R O C E E D I N G S

2 MR. GONZALEZ: Buenos dias. Good morning. I'm  
3 Jose Ramon Gonzalez (Speaking Spanish). A few words in  
4 Spanish, then we'll move on to English.

5 (Speaking Spanish.)

6 MR. GONZALEZ: Again, I'm Jose Gonzalez, the --  
7 I'm one of the members of the Board. The other members  
8 have asked me to open the meeting and welcome you all  
9 to this first meeting of the Financial Oversight and  
10 Management Board for Puerto Rico.

11 The documents which we will be discussing are  
12 generally available in Spanish and English at the  
13 Board's website, and the meeting itself will be  
14 transmitted live -- is being transmitted live through  
15 the Board website. The website addresses in Spanish  
16 and English are listed in the auditorial projection.

17 I will conduct a roll call to determine the  
18 existence of a quorum and initiate the meeting.

19 Andrew Biggs.

20 MR. BIGGS: Present.

21 MR. GONZALEZ: Jose Carrion.

22 MR. CARRION: Present.

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1 MR. GONZALEZ: Carlos Garcia.

2 MR. GARCIA: Present.

3 MR. GONZALEZ: Arthur Gonzalez.

4 JUDGE GONZALEZ: Present.

5 MR. GONZALEZ: Ana Matosantos.

6 MS. MATOSANTOS: Present.

7 MR. GONZALEZ: David Skeel.

8 MR. SKEEL: Present.

9 MR. GONZALEZ: The governor of Puerto Rico is an  
10 ex officio member of the Board, but he has notified us  
11 of his delegation of his presence of the Board through  
12 his representative, Richard Ravitch.

13 LIEUTENANT GOVERNOR RAVITCH: Present.

14 MR. GONZALEZ: Thank you. Mr. Skeel, I will ask  
15 you if you can serve as secretary pro tem for this  
16 meeting.

17 MR. SKEEL: Yes, I can.

18 MR. GONZALEZ: Thank you very much. The Board, as  
19 you know, has been established under the Puerto Rico  
20 Oversight Management and Economic Stability Act, and  
21 its purpose is to provide a way for Puerto Rico to  
22 achieve fiscal equilibrium in a sustainable manner, and



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1 restore its access to the capital markets. The Board  
2 is tasked with working with the people of Puerto --  
3 with the people and the government of Puerto Rico to  
4 create the needed foundation for economic growth and  
5 development.

6 The purpose of today's meeting is to authorize  
7 some important initial actions that are required under  
8 PROMESA, and are critical to the functioning of the  
9 Board. We have six agenda items, including five  
10 matters which require a Board approval, and each of  
11 those will require an affirmative vote of no fewer than  
12 four voting Board members to pass.

13 The first matter is the election of the Board's  
14 chairperson. Section 101(e)(4) of PROMESA provides  
15 that the voting members of the Board shall designate  
16 one of its members as the chair, and the Board's  
17 bylaws, as proposed, state that the term of the chair  
18 shall be for two years. Our first order of business  
19 will be to elect the chair.

20 I will open the nominations process. Any  
21 nominations, please.

22 MS. MATOSANTOS: I nominate Mr. Carrion to be the

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1 chairman.

2 MR. GONZALEZ: Mr. Carrion, do you accept the  
3 nomination?

4 MR. CARRION: I do.

5 MR. GONZALEZ: Any other nominations for chairman  
6 of the Board?

7 (No response.)

8 MR. GONZALEZ: Hearing no other nominations, I  
9 hereby declare the nominations closed.

10 We will then vote for the chair. I'm sorry.

11 BOARD MEMBER: We need a second.

12 MR. GONZALEZ: Do we have a second for the  
13 nomination?

14 MR. BIGGS: I second the motion.

15 MR. GONZALEZ: Very good. Andrew seconds the  
16 motion.

17 We will move to voting. By a show of hands, in  
18 favor of the nominee for chair of the Board.

19 (Hands raised.)

20 MR. GONZALEZ: I see a unanimous vote of the  
21 voting members of the Board.

22 Do the members have any objections?

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1 (No response.)

2 MR. GONZALEZ: None noted. All the members having  
3 voted in favor of the motion, Mr. Carrion has been  
4 elected chair, and I will now -- I'd like to extend my  
5 congratulations, and turn over the meeting to him. Mr.  
6 Carrion.

7 CHAIRMAN CARRION: Thank you, Jose Ramon. I want  
8 to thank you and my colleagues for this great honor.  
9 We will strive to work in a collegial manner for the  
10 benefit of the people of Puerto Rico.

11 Let's move forward with the agenda and the  
12 adoption of the Board bylaws. But before I do that, I  
13 would like to thank Professor Skeel and Judge Gonzalez  
14 for their work regarding this issue. We've done well  
15 in an expedited manner, so thank you very much.

16 The members have been previously provided with the  
17 proposed bylaws, and a copy is also available if you  
18 wish to review it again. I would like to request  
19 Professor Skeel to provide a summary of said bylaws and  
20 Judge Gonzalez.

21 JUDGE GONZALEZ: Thank you. I wanted to speak  
22 briefly about the thinking of the Board in drafting the

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1 bylaws and on other matters. We are acutely aware of  
2 the importance of transparency and consensus and  
3 actions in establishing the credibility of this Board.

4 We have a great deal of work to do -- to do to  
5 continue to advance this goal, and we are making every  
6 effort to do so as expeditiously as we can. We welcome  
7 and encourage your comments and suggestions in this and  
8 other matters. We will continue to work to enhance  
9 methods and means of communications, as indicated today  
10 by your access to our website and other information  
11 thereon.

12 I now turn it over to Professor Skeel to give a  
13 summary of the bylaws.

14 MR. SKEEL: Thank you, Judge Gonzalez. Our bylaws  
15 are general operating rules essentially. Rather than  
16 go through the document, which, as Judge Gonzalez said,  
17 is on our website now, so anybody who's interested can  
18 look at it, I'll just say a word about the general  
19 principle we used in putting the bylaws together, and  
20 highlight a couple of the significant provisions in the  
21 bylaws.

22 The general operating principle we used was we

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1 wanted everything to be consistent with the Act,  
2 consistent with PROMESA. So, the bylaws are framed by  
3 the statute itself. We've incorporated a lot of the  
4 statute into the bylaws, but everything is meant to be  
5 consistent with PROMESA.

6 The key adjustments that we made primarily have to  
7 do with the voting rules in a couple of places. We've  
8 clarified a little bit, and in a couple of places we  
9 increased the voting rules. So, for all of the major  
10 decisions that we make, ordinarily we're going to  
11 require that there be four votes of the seven of us for  
12 any of those decisions to go through except in places  
13 where the Act requires a different, a particularly  
14 higher vote.

15 So, the idea is if for some reason not all of us  
16 can be at a meeting, we still are going to require four  
17 votes, a majority of the full Board, not just a  
18 majority of the number of directors or Board members  
19 who happen to be at the meeting. So, it's a four-vote  
20 requirement we've put in.

21 The other big change we've made or significant  
22 change we've made in the voting is that with several of

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1 the appointments, in particular the executive director  
2 and the general counsel, we're going to require the  
3 chair plus four members of the Board approve those  
4 appointments. So, effectively it's a five-vote  
5 requirement.

6 There are two reasons for this. One is, those are  
7 going to be extraordinarily important appointments.  
8 The executive director and our general counsel are  
9 going to have an enormous workload. They're going to  
10 be very, very important, and so we want to make sure  
11 that we have a supermajority of us on board with those  
12 appointments. It also is consistent with the general  
13 desire to operate with as much consensus as we can  
14 within the Board, given the magnitude of the challenge  
15 we have in front of us.

16 Thank you.

17 CHAIRMAN CARRION: Thank you, Professor Skeel.  
18 Does anybody have any questions regarding the proposed  
19 bylaws?

20 (No response.)

21 CHAIRMAN CARRION: Do I have a motion to approve  
22 the bylaws?

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1 JUDGE GONZALEZ: Yes. I move to adopt the bylaws  
2 for the Board in the form presented at this meeting.

3 MR. GARCIA: I second the motion.

4 CHAIRMAN CARRION: Thank you, Mr. Garcia.

5 A show of hands in favor of approving the bylaws.

6 (Hands raised.)

7 CHAIRMAN CARRION: Excellent. Moving on. The  
8 request for the fiscal plan and other information from  
9 the governor of Puerto Rico. Before I do, I would like  
10 to state that we as a Board are making every effort to  
11 meet our obligations, to complete the fiscal plan  
12 certification process, and engage in good faith  
13 negotiations under the Act, okay?

14 One of the duties of the Board, Section 210(a), is  
15 to provide a schedule to the governor of Puerto Rico  
16 for the purpose -- for the process of development,  
17 submission, approval, and certification of fiscal plans  
18 for the Government of Puerto Rico, and for covered  
19 territorial instrumentalities, and to consult with the  
20 governor in establishing said schedule.

21 In preparing to provide that schedule, in the  
22 spirit of cooperation, and in the exercise of the

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1 Board's right under Section 104(c), to obtain  
2 information necessary to carry out our  
3 responsibilities, we believe it appropriate that we  
4 first request certain periodic information from the  
5 Government of Puerto Rico.

6 The initial request of information from the  
7 Government of Puerto Rico's central government is as  
8 follows: a weekly cash flow report, including all  
9 revenues received and all expenses paid, including any  
10 debt service, and broken down by main categories;  
11 monthly downloads of bank account data and statements  
12 of all principle banking accounts provided directly to  
13 the Board by each bank; monthly and year-to-date report  
14 of compliance with current approved budget by budgetary  
15 fund and by agency, including local special funds and  
16 Federal funds; monthly and year-to-date detailed report  
17 of revenues and a narrative about collection efforts  
18 and main initiatives of the Puerto Rico Treasury  
19 Department; monthly detailed payroll report by agency;  
20 monthly reports on Federal funds received and disbursed  
21 by area and by agency; monthly report of all debt  
22 obligations due this current Fiscal Year, and which



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1 have been paid; quarterly report on each agency's  
2 productivity and performance with appropriate metrics  
3 and narrative description; quarterly report on any key  
4 Puerto Rico economic financial, social, and labor  
5 statistics.

6 I'd like to open this up for discussion and  
7 thoughts with regards to the timetable before we put  
8 this to the governor. Any comments?

9 AUDIENCE MEMBER: It sounds like slavery to me.

10 CHAIRMAN CARRION: Any comments from the Board?

11 MR. GONZALEZ: So, I think this is a very complete  
12 and -- listing of information that is required and  
13 reasonable for the Board to do its job and to begin to  
14 gather the information necessary for decisions we may  
15 make. So, it seems reasonable and appropriate.

16 CHAIRMAN CARRION: Thank you. Thank you very  
17 much. Are there any further comments from the Board?

18 (No response.)

19 CHAIRMAN CARRION: There being no further  
20 comments, I would now like to move that in connection  
21 with the Board's responsibilities under the Act with  
22 respect to fiscal plans, the Board request the governor

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1 of Puerto Rico to provide, one, the Board with the  
2 fiscal plan for the Commonwealth of Puerto Rico by no  
3 later than October 14th; for the governor or his  
4 representative to present such fiscal plan at the next  
5 Board meeting to be held in October; and lastly, for  
6 the governor to provide the information previously  
7 listed, as may be modified by the Board from time to  
8 time, initially as of September 30th, with a delivery  
9 date of the end of October, or as such other time  
10 agreed with the Board, and thereafter with periodicity  
11 requested by the Board.

12 Would anybody second this motion?

13 MR. GONZALEZ: I will second the motion.

14 CHAIRMAN CARRION: Thank you. A show of hands  
15 affirmative vote.

16 (Hands raised.)

17 CHAIRMAN CARRION: Thank you. All members having  
18 voted in favor of the motion, the motion has passed.

19 Now, let's move on to the process -- to establish  
20 a process for a search of the Board's executive  
21 director and certain other key personnel, a process  
22 which we will endeavor to do as expeditiously as

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1 possible. And we would like to begin that process with  
2 -- by stating that Section 103 requires that the  
3 executive director be appointed by this chair with the  
4 consent of the Oversight Board. The bylaws define the  
5 executive director's role, stating that he or she shall  
6 execute instructions of the Board and essentially be a  
7 full-time chief executive of the Board, and subject to  
8 supervision and control of the Board, and shall have  
9 general supervision and direction of the business  
10 affairs of the Board.

11 PROMESA establishes in Section 5.2 that under the  
12 Board, the position of the revitalization coordinator  
13 will be a central figure in the development of  
14 infrastructure revitalization projects. PROMESA  
15 requires that the coordinator be appointed by the  
16 governor, and the Board submit at least three nominees  
17 for the position.

18 The bylaws require that the Board have a general  
19 counsel, who shall be the chief legal officer of the  
20 Board, and have such other duties as may be assigned by  
21 the Board and executive director.

22 PROMESA makes it clear that the executive director

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1 may hire additional staff from time to time with the  
2 approval of the Board. Given the importance of this  
3 matter and the deadline involved, I believe it is  
4 appropriate, and I'm asking for approval, to engage an  
5 executive search firm to assist the Board to identify  
6 qualified candidates for the executive director and  
7 other key positions, including, but not limited to, the  
8 coordinator and the general counsel.

9 To those ends, I would like to create a committee  
10 composed of three other Board members -- Mr. Garcia,  
11 Mr. Gonzalez, and Ms. Matosantos, and me -- to identify  
12 the appropriate firm or firms and conduct a search  
13 process for these positions. Before engaging the firm,  
14 we will seek the consent of the committee, describing  
15 generally the scope of services and of compensation of  
16 said firm.

17 Any thoughts regarding this issue before we put it  
18 to a vote?

19 (No response.)

20 CHAIRMAN CARRION: There being --

21 (Disturbances in meeting room.)

22 AUDIENCE MEMBER: You have no right to do this.

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1 You have no right --

2 AUDIENCE MEMBER: Down with PROMESA. No to these

3 asshole promises. You guys are raping Puerto Rico.

4 You're pillaging Puerto Rico. Shame on all of you.

5 You're wanted, Chairman Carrion, for crimes against

6 Puerto Rico. Shame on all of you. Stop pillaging

7 Puerto Rico. Stop pillaging Puerto Rico. (Speaking

8 Spanish) PROMESA. No to the promises. Stop raping

9 Puerto Rico. Our people do not deserve that. Puerto

10 Rico is not in slavery. Stop raping Puerto Rico. Stop

11 raping Puerto Rico.

12 AUDIENCE MEMBER: This is slavery. As you know,

13 we will resist. As you know, we will resist.

14 AUDIENCE MEMBER: Shame on you guys.

15 AUDIENCE MEMBER: Shame --

16 AUDIENCE MEMBER: All of you.

17 AUDIENCE MEMBER: They're sell-outs, every one of

18 them.

19 CHAIRMAN CARRION: Any thoughts regarding the

20 issues that I just plotted out by the -- from the

21 Board?

22 MR. MATOSANTOS: Mr. Chair, it makes sense to me

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1 that we'd move forward in this matter so that we can  
2 move with our duties as expeditiously as possible.

3 CHAIRMAN CARRION: Thank you, Ms. Matosantos.

4 There being no further discussion, would someone like  
5 to make a motion?

6 MR. BIGGS: I would like to move that a committee  
7 of the Board be created for the executive searches  
8 composed of the chair and Board members, Carlos Garcia,  
9 Jose Gonzalez, Ana Matosantos.

10 (Disturbances in the meeting room.)

11 MR. BIGGS: And that the chair be authorized to  
12 seek and engage an executive search firm or firms which  
13 will be -- which will identify qualified candidates for  
14 the key executive positions, including, but not limited  
15 to, executive director, revitalization coordinator, and  
16 general counsel, provided that prior to engagement, the  
17 chair first receives the written consent of a majority  
18 of members of the committee to the firms or firms  
19 selected, and the compensation to be paid to the firm  
20 or firms selected.

21 CHAIRMAN CARRION: Thank you, Mr. Biggs. Does  
22 anybody second the motion?

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1 JUDGE GONZALEZ: I second the motion.

2 CHAIRMAN CARRION: Thank you, Judge Gonzalez. May  
3 I have a show of hands for that -- the motion, please?

4 (Hands raised.)

5 CHAIRMAN CARRION: Thank you very much. Shall we  
6 move to other administrative matters?

7 (Disturbances in the meeting room.)

8 CHAIRMAN CARRION: Until the executive director is  
9 recruited, it is important for the Board to be able to  
10 contact services needed to organize, support, and carry  
11 out the responsibilities required by the Board, such as  
12 open bank accounts, sign leases and contracts,  
13 implement reimbursement policies, and conduct any other  
14 official business, including the ability to retain  
15 counsel required to attend to immediate matters.

16 Ana, do you have a -- Ms. Matosantos, do you have  
17 a --

18 MS. MATOSANTOS: Yes, thanks for acknowledging me  
19 to speak. Mr. Chair, I move to grant the chair the  
20 power to contract for services needed to organize,  
21 support, and carry out the responsibilities required of  
22 the Board: open bank accounts, sign leases, sign

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1 contracts, implement reimbursement policies, retain  
2 professional advisors as needed, including counsel, to  
3 address matters that require immediate attention, and  
4 conduct any other official business of the Board.

5 CHAIRMAN CARRION: Thank you, Mrs. Matosantos.  
6 Before we move on to second -- before I ask that the  
7 motion be seconded, I wanted to take a moment to thank  
8 the Department of Treasury for their technical  
9 assistance, the good people of the GSA for their  
10 assistance, and finally, Mr. Garcia for his technical  
11 support in the last few days who made this meeting  
12 possible.

13 Does anybody second this motion?

14 BOARD MEMBER: I'd like to second the motion.

15 CHAIRMAN CARRION: Great. Just a show of hands to  
16 see --

17 (Hands raised.)

18 CHAIRMAN CARRION: All right. Thank you very  
19 much.

20 MS. MATOSANTOS: Mr. Chair, I'd like to add also  
21 our thanks to the Government of Puerto Rico for their  
22 assistance with the website and other matters related



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1 to the making this meeting happen.

2 CHAIRMAN CARRION: Well said. Thank you. All  
3 right. Please note that Mr. Gonzalez has stepped out.

4 Our final agenda item will be the initial  
5 designation of covered entities under PROMESA. And  
6 here I'd like to also thank Ms. Matosantos' work in  
7 assisting and Mr. Garcia's work in assisting and  
8 putting together this list for the Board.

9 The statute states in Section 101(d) that the  
10 Board may designate any Puerto Rico instrumentality as  
11 a covered territory instrumentality, which will be  
12 subject to the requirements of the statute. An  
13 instrumentality is defined in Section 5.19 as any  
14 political subdivision, public agency, instrumentality,  
15 or public corporation of Puerto Rico.

16 The Board members have previously been provided a  
17 list, entitled "Covered Entities Under PROMESA Act,"  
18 showing those instrumentalities which are being  
19 proposed to be designated as covered territorial  
20 instrumentalities. And that list is here at the  
21 meeting if you would like to view it again.

22 Any discussion regarding this issue?

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1 MR. GARCIA: If I may, Mr. Chair, I just want to  
2 share the list of the covered entities that -- before  
3 the motion is presented. So, the initial proposed list  
4 of covered entities will be the Commonwealth of Puerto  
5 Rico, the Employees Retirement System, the Judiciary  
6 Retirement System, the Teachers Retirement System, the  
7 University of Puerto Rico, and then all the public  
8 corporations of Puerto Rico, including, but not limited  
9 to, the Aqueduct and Sewer Authority, the Children  
10 Trust Fund, the Convention Center District Authority,  
11 the Economic Development Bank, the Electric Power  
12 Authority, the Fiscal Agency and Financial Advisory  
13 Authority, the Government Development Bank, Highway and  
14 Transportation Authority, Housing Financial Authority,  
15 Industrial Development Company, Infrastructure  
16 Financial Authority, Municipal Financial Authority,  
17 Ports Authority, Public Buildings Authority, Public  
18 Broadcasting Corporation, Public Corporations for the  
19 Supervision and Insurance of Cooperatives, better known  
20 as COSSEC, Public Finance Corporation, Sales Tax  
21 Financing Corporation, State Insurance Fund  
22 Corporation, UPR Palacio University Stadia, and Tourism

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1 Companies; all the entities that are affiliated with or  
2 are subsidiaries of the entities listed above, as well  
3 as the entities that succeeded these entities are also  
4 designated as covered entities and subject to the  
5 oversight of the Board.

6 CHAIRMAN CARRION: Thank you, Mr. Garcia. I'd  
7 like to put a motion on the table for approval.

8 MS. MATOSANTOS: Mr. Chair, if I may, on the  
9 rationale a little bit before we get to the motion, if  
10 that's acceptable.

11 CHAIRMAN CARRION: Absolutely.

12 MS. MATOSANTOS: I think this approach that Mr.  
13 Garcia has outlined of kind of a broad -- a broad  
14 capturing of the different covered entities is  
15 reasonable and wise given the interrelatedness of the  
16 financing for different entities and the budget  
17 situation in Puerto Rico. And focusing on all entities  
18 at the Commonwealth level, but including the initial  
19 fiscal plan in a more focused manner with things that  
20 are directly related to the budget is appropriate and  
21 will be helpful to the -- to the Board's work,  
22 particularly given the information we have received.

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1           So, I'm very supportive of this approach, and also  
2    think we should consider if there are other entities  
3    that we need to be looking at and other financial  
4    situations subject -- that are potentially subject to  
5    the Board's oversight that needed to be included in the  
6    future. But as a -- as an initial designation, this  
7    kind of holistic approach that focuses on the  
8    Commonwealth-wide entities and related public  
9    corporations seems appropriate and warranted.

10           CHAIRMAN CARRION: Thank you, Ms. Matosantos. A  
11    motion to approve covered entities under the PROMESA  
12    Act.

13           MR. GONZALEZ: Mr. Chair, I would like to move  
14    that the entities shown on the list presented at this  
15    meeting, entitled "Covered Entities Under the PROMESA  
16    Act," as I have read them and are provided on the  
17    website both in English and Spanish, be designed  
18    covered territorial instrumentalities subject to  
19    PROMESA.

20           CHAIRMAN CARRION: Thank you, Mr. Garcia. Does  
21    anybody second the motion?

22           MS. MATOSANTOS: I second the motion.

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1 CHAIRMAN CARRION: Thank you, Ms. Matosantos.

2 Show of hands in favor.

3 (Hands raised.)

4 CHAIRMAN CARRION: Anybody opposed?

5 (No response.)

6 CHAIRMAN CARRION: Thank you very much. Since we  
7 have no other matters to cover, I move that we adjourn  
8 this meeting.

9 JUDGE GONZALEZ: Thank you, Judge Gonzalez. We'll  
10 be available for the press after the meeting. Thank  
11 you very much for coming.

12 (Whereupon, the meeting was adjourned.)

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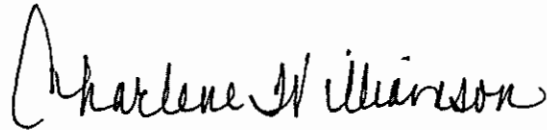
**CERTIFICATE OF TRANSCRIBER**

I, Charlene Williamson, do hereby certify that, to the best of my knowledge and belief, the attached transcript is a true and accurate transcription of the indicated audio recording.

I further certify that I am neither attorney nor counsel for nor related nor employed by any of the parties to the action; further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto or financially interested in this action.

07/06/2017

\_\_\_\_\_  
DATE



\_\_\_\_\_  
Charlene Williamson  
TRANSCRIBER

# EXHIBIT B

## Pettit, Lanora

**From:** Brian Bromberg REDACTED  
**Sent:** Friday, August 04, 2017 1:32 PM  
**To:** REDACTED ; Pettit, Lanora  
**Subject:** FW: Puerto Rico (U.S. Intelligence) - Commonwealth, Oversight Board Remain Divided on Furloughs After Board Approves Reduced Program Beginning Sept. 1 to Address \$218M Funding Gap

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**From:** Reorg Research Alert  
**Sent:** Friday, August 4, 2017 1:31:40 PM (UTC-05:00) Eastern Time (US & Canada)  
**To:** Brian Bromberg  
**Subject:** Puerto Rico (U.S. Intelligence) - Commonwealth, Oversight Board Remain Divided on Furloughs After Board Approves Reduced Program Beginning Sept. 1 to Address \$218M Funding Gap

August 04, 2017 13:31

### Puerto Rico

## Commonwealth, Oversight Board Remain Divided on Furloughs After Board Approves Reduced Program Beginning Sept. 1 to Address \$218M Funding Gap

### Relevant Documents:

[Right-Sizing Discussion](#)  
[Board Letter to Governor on Right-Sizing](#)  
[Conformed Certified Fiscal Plan \(Commonwealth\)](#)  
[Certified Fiscal Plan \(COSSEC\)](#)  
[Press Release](#)

PROMESA board members and Puerto Rico government officials sparred this morning during a public meeting in which the board decided to impose a worker furlough program beginning Sept. 1 over commonwealth objections. The board approved the measure unanimously.

Reorg's full live coverage of today's hearing can be found [HERE](#).

Board Chairman Jose Carrión warned that the matter will likely end up in court and said that any delay in implementing the program will require the board to increase its intensity. He called the expected court fight "unfortunate" and said it would add to costs. The worker furlough program, which is slated to run through the end of fiscal year 2018, aims to close a \$218 million gap against an \$880 million target in right-sizing savings. The board and the commonwealth also disagreed over a suggestion by PROMESA board Executive Director Natalie Jaresko that it may be necessary to appoint a monitor in connection with the oversight of key budget functions across the commonwealth budget.

In addition to the furlough program, the oversight board unanimously adopted a resolution approving the certification of COSSEC's fiscal plan subject to certain amendments. The board requested that the government submit a plan to implement the amendments within 30 days and a revised fiscal plan that complies with the measures described in the amendments within 15 days thereafter.

The board also provided [an overview](#) of the proposed pension reform, saying that it is proceeding with its plan to reduce pension benefit outlays by an average of 10% by 2020 as contemplated in the certified fiscal plan



despite increasing pushback from the administration of Gov. Ricardo Rosselló.

### **Furlough Program**

Jaresko said the government has made “significant progress” in right-sizing measures, providing sufficient evidence that it could realize about \$662 million of the projected \$880 million in savings, but that the worker furlough program is needed to close the \$218 million gap. While she said an incentivized retirement program pushed by government officials is a promising development, it will not result in budgetary savings during this fiscal year.

Jaresko noted that the intensity of the worker furlough program is less than initially contemplated by the board, with most government employees having two days off a month rather than four days a month as originally planned. Front-line police officers will be exempt. The executive director also said that the board would not make a decision on whether to suspend Christmas bonuses for government employees until Sept. 30.

“The furlough program is substantially smaller than that was contemplated originally in certifying the fiscal plan,” Jaresko said.

In response to the oversight board’s decision on the furlough program, GDB President and *ex officio* board member Christian Sobrino told the oversight board that the commonwealth will not implement the furlough program. “The government understands the line needs to be drawn,” Sobrino said, adding, “There will be no furloughs. You can take that to the bank.” During his comments, Sobrino argued that the amendments to the fiscal plan that were made earlier this year prior to certification were “unilateral amendments” that the commonwealth government views as recommendations. He added that the commonwealth will meet its fiscal goals but will do so in accordance with its own policy.

“If they want to take us to court, we will defend ourselves,” Sobrino told reporters after the meeting.

The governor’s board representative also reiterated administration arguments that the PROMESA board lacked the authority to unilaterally impose the furlough program and said the program would have a negative economic impact of more than \$600 million over the next two fiscal years.

But both Jaresko and Carrion rebutted the arguments, saying the program is an integral part of the fiscal plan and commonwealth budget that the board certified earlier this year. Also, the negative economic impact is already contemplated in the fiscal plan.

Board member Carlos García also moved to clarify the historical record surrounding the worker furlough contingency plan, noting that the commonwealth agreed to its inclusion in the fiscal plan.

“There would not have been a certification of the fiscal plan if these conditions were not included,” Garcia said. “We discussed these with everyone and [some] were in some cases modified.”

Other board members also noted that the board had granted the commonwealth several extensions to the documentation required on the right-sizing measures. Sobrino countered that the governor was “notified” of the contingency plans but never agreed to them.

The official also asked Jaresko at one point if the commonwealth is complying with the fiscal plan, which prompted her to respond: “You just announced a pension plan in conflict with the fiscal plan.”

Commonwealth and board officials also sparred over the significance of a cash balance of nearly \$1.8 billion at the close of fiscal year 2017, when fiscal plan estimates had put the figure at \$291 million. Two board members clarified that the commonwealth provided the number, while Jaresko placed the variance with the forecast to the poor quality of financial projections.

Jaresko was also asked how she could justify to creditors maintaining the debt service levels contemplated under the fiscal plan when the commonwealth government just reported nearly \$2 billion of cash on hand.

“Debt negotiations are happening as we speak and I prefer not to get into that conversation here, not into the conversations that are ongoing in litigation,” Jaresko said. “Suffice it to say that a moment in time - a single day’s liquidity level - has nothing to do with either liquidity management or the capacity to pay. A single moment in time is just that, a single moment in time. There are a wide variety of downside risks in Puerto

Rico's fiscal future. There's a liquidity policy, a liquidity management and liquidity forecast that needs to follow. Taking one number out of context is not relevant from a debtor perspective."

Board member Ana Matosantos noted the "human impact" of the worker furlough program but argued that not doing it would pose a greater risk because it will increase the possibility of the government running out of cash and erode its ability to deliver essential services. She also noted that "year one of the fiscal plan is the easiest of the next three years," pointing to targets to reduce government spending and healthcare spending by 30% each.

Sobrino also noted that the commonwealth and the board "may have a contentious discussion on this issue" but indicated that the administration remained committed to complying with the fiscal plan.

Another point of contention between the board and administration, however, also arose during the meeting. Jaresko stressed the need for centralized oversight of key budget functions across the commonwealth budget and signaled that the board may consider appointing a monitor to that end. "No single person right now has access to the complete picture," she said.

Sobrino told reporters after the meeting that he was "surprised" by the comment given the collaboration between Treasury Department and board officials and questioned the legality of such a move. He noted it was not mentioned on the board agenda.

Jaresko said that government reports to date have failed to provide a full liquidity picture across the commonwealth. She said some reporting has been started, but a roadmap for future reporting is still needed.

The executive director said that board and commonwealth officials have discussed and reached an agreement on financial reporting and that the first report under this accord will be an Aug. 15 budget-to-actual report corresponding to July, the first month of the fiscal year. She said the government and board have agreed on a long list of weekly and monthly reports, adding that they would be made public. Sobrino noted that the government will commence its reporting requirements under PROMESA in the coming weeks.

### **Board Pursuing Pension Reform, Reductions**

The PROMESA oversight board said it is pursuing a [plan to reduce pension benefit outlays](#) by an average of 10% by 2020 as contemplated in the certified fiscal plan despite increasing pushback from the Rosselló administration.

A pension reform memo released this morning by the PROMESA board notes that expenditures are being reduced throughout the commonwealth's budget and that holders of government bonds are not likely to be repaid in full. "Retirement plan participants, like other unsecured creditors, will have a reduction in the amounts paid to them by the Commonwealth," the memo said.

PROMESA board member Andrew Biggs said that the board's proposals for the systemwide overhaul of the government's pension system are meant to accomplish three things:

- Fund existing pension obligations on a "pay go" basis;
- Enroll both active employees and newly hired workers in a true defined contribution retirement system; and
- Ensure that all newly hired employees are enrolled in Social Security.

The PROMESA board's pension memo says that the reduction will average 10% for the entire group of retirement system members. Benefit reductions will begin 90 days following confirmation of the plan of adjustment under Title III of PROMESA. Although the average benefit reduction would be 10%, reductions would be implemented progressively so that there is no reduction for those with combined retirement plan and Social Security benefits below the poverty level of \$1,000 per month.

Jorge Irizarry, executive director of local bondholder's group Bonistas del Patio, said the group supports that government pensions are paid to the greatest extent possible but noted that most local bondholders use the

interest payments for their retirement and are already experiencing a more dramatic impact than government retirees. He noted that the fiscal plan finds that 96% of government spending is essential and said it contemplates a 74% cut in debt service payments.

“[Local bondholders] are being affected dramatically in the fiscal plan, and that is not being addressed,” Irizarry said.

### **COSSEC Fiscal Plan Presentation and Certification**

AAFAF chief Portela and AAFAF COO Alejandro Camporeal stressed that COSSEC is different than other covered entities in that it is not a debt issuer, is solvent and financially self-sufficient.

COSSEC has adequate capital to perform its regulatory and insurance duties under ordinary and relatively stressed scenarios, according to the fiscal plan. It says the main risks to COSSEC are the high exposure of certain cooperatives to Puerto Rico government debt and the impact on their capital from a reduction in value of those bonds due to debt restructuring.

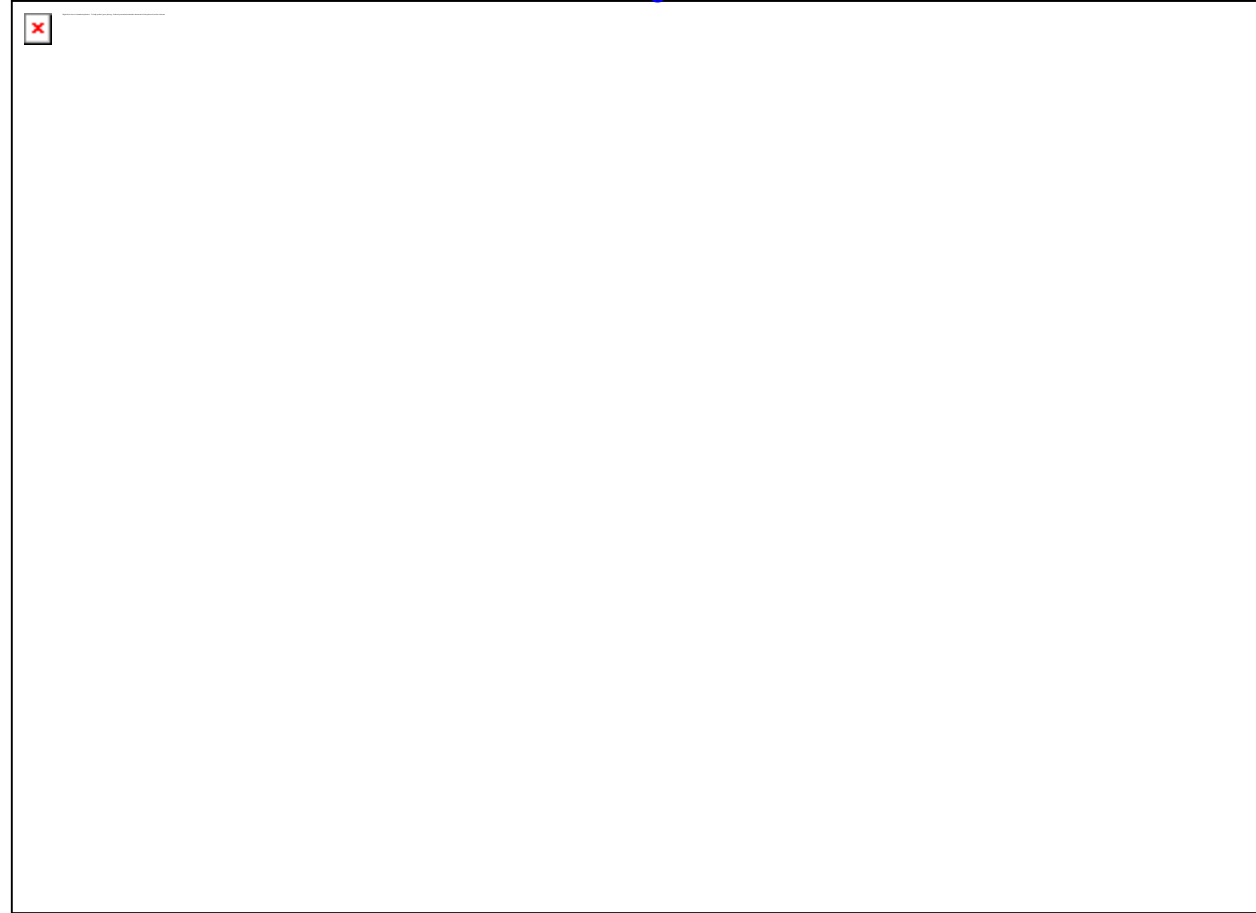
The plan outlines the cooperatives' exposure to Puerto Rico debt, pegging its amortization value at \$976 million and its market value at \$334.8 million, and breaking down the holdings by credit: Government Development Bank (44%); general obligation bonds (14%); Puerto Rico Electric Power Authority (8%); Public Finance Corp. (7%); COFINA (7%); Public Buildings Authority (5%); Highways and Transportation Authority (2%); Employees Retirement System (2%); and others (4%).

Camporeal said the fiscal plan as presented is focused on confirming COSSEC's capacity to perform its regulatory and insurance duties, governance structure reforms and a COOP-SELF program to inject some \$533 million into the system. He outlined the four stress test scenarios conducted as part of the plan's development, none of which included the Government Development Bank's proposed restructuring support agreement and Title VI restructuring.

A summary of the cooperative's exposure, the applicable amortization values and the results of the stress tests are set forth below:



Camporeal also addressed the breakdown of the \$533 million described in connection with the COOP-HELP, which is as follows:



The board called for the COSSEC plan to include the following amendments:

- revised stress-test analyses that replicate the National Credit Union Administration's approach;
- an implementation plan for the COOP-SELF program;
- a reform plan that redefines COSSEC'S mission and governance; and
- to outline the scope of activities that should be addressed through requests for external assistance from federal agencies or external contractors.

The board also included three additional conditions upon which certification of the COSSEC fiscal plan remains contingent, including the amendment of the COSSEC charter law that provides for the appointment of a three-member committee that will supersede COSSEC's board and its powers during the implementation of the fiscal plan. The committee's membership will comprise the president of COSSEC's board, the executive director of AAFAF and the Commissioner of Financial Institutions.

The other two legislative contingencies are as follows: (i) "amending both the Coops Act and COSSEC's Enabling Act to authorize a coop to issue preferred shares in an amount in excess of the amount of its common stock and to expressly authorize COSSEC to sell the assets of a coop to a non-coop entity in the event that COSSEC orders the liquidation, consolidation or merger of such coop"; and (ii) "amending [Act 220-2015](#) in order that COSSEC's regulatory powers over a cooperative are not limited in any way due to a coop's investments in bonds or notes issued by the Commonwealth or its instrumentalities."

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